CHAPTER 1 :

INTRODUCTION:

Islam is not simply one of the greatest monotheistic religions, signifying submission to the will of Allah, but as system of life in entirety. It prescribes a complete code of conduct for every day human life in all its spheres and manifestations. It does not confine itself to a spiritual relationship between man and Allah or describes the Almighty only with a transcendental reference but also regulates, in right proportions, an interactive relationship between man and man, and between man and society with moral, political and economic genesis. As a result, it is a religion lived in everyday life and no Muslim is in any doubt as to exactly how he should carry on the events of his day.

On the other hand, capitalism has not been able to narrow down the gap between the "haves and "have-nots". Material affluence, wherever it exists, is marked by a conspicuous absence of a broad based sharing of fortunes and thus real happiness to a large number of people is seriously missing. Likewise, socialism advocating collective ownership of the means of production and control of distribution has failed to provide the necessary motivation for collective development and personal self-actualization, and thus retarded the process and rate of economic growth.

Similarly, communism, stressing ownership of property and control of production, distribution and supply by the whole of classless society, could not get along with the human potential, dynamism and aspirations, and fell too short to bring about economic satisfaction or progress, in individual and collective life.

Looking at the inadequacies of the prevailing economic system, in promoting real economic well-being of the masses, Muslims all over the world stared to re-discover the

wisdom and balance of Islamic economic system. This led to a renaissance, during the last few decades of economic thought and system as enunciated by Islam. The upsurge gained momentum with the discovery of oil and resultant ballooning up of the national income of many Middle Eastern countries. In the process, attention was focused on Islamic Economic System ,Islamic banking and elimination of interest (**riba**) in conformity with the injunctions contained in the Holy Qur’an and sayings of the Holy Prophet (Peace be upon him).

The revival of Islamic Economic System has now become a point of central attention in Islamic world, which covers about one-sixth of the land surface of the global. The Muslim population by the year 2050 A.D. is expected to be over 2.6 billion or over 26% of the projected world population of 10 billion. Thus one out of every four people by the middle of 21st century would be Muslim, aspiring to lead an economic life as envisaged in Islam. Under the Islamic tenets, interest is prohibited in all forms and manifestations. This prohibition is strict, absolute and unambiguous. The Holy Qur’an has clearly warned that those who do not forego interest which has already accrued and do not desist from taking it any further, then they are at war path with Allah and his Prophet.

WHAT IS RIBA?

The word "Riba" means excess, increase or addition, which correctly interpreted according to Shari’ah terminology, implies any excess compensation without due consideration (consideration does not include time value of money). This definition of Riba is derived from the Quran and is unanimously accepted by all the Islamic scholars. There are two types of Riba, identified to date by these scholars namely Riba An-Nasiyah' and 'Riba Al Fadl'. 'Riba An-Nasiyah' is defined as excess, which results from predetermined interest (sood) which a lender receives over and above the principle (Ras ul Maal). 'Riba Al Fadl' is defined as the excess compensation without any consideration resulting from a sale of goods.

The Islamic system order based on a set of principles constituting the concept and philosophy as enunciated explicitly in the Quran. This philosophy provides what can be understood as the Islamic system of social justice.

Plato and Aristotle had also opposed the concept of interest in the era of before Christ. Interest was also prohibited in the preliminary teachings of Jews and Christians, and is also prohibited in the First Testament of the Holy Bible.

Modern economists have also opposed the interest. The famous English economics expert Lord Keynes, who is globally recognized as an expert of modern economics, has first time expressed his views on the point that unless the interest is abolished in some un-vexatious way, unemployment could not be eradicated from the world, rather, he insisted that the world would not bear the long-run idleness which is connected with the capitalism.

Lord Keynes writes in a book that the rate of interest will have to be diminished in order to eradicate unemployment. Lord Keynes said that for a developed economy, interest rate should be zero. It means according to Lord Keynes there should be no interest in a model economy. The interest is an instrument of exploitation for a common person and nations, and for this purpose the detailed study under the title "The protocols of the learned elders of Zions," can be perused.

While defining the relationship between interest and unemployment, Lord Keynes writes in his above-quoted book that "The Onus of interest badly affects capacity of capital and the vulnerability adversely affects the constructively, which give rise to unemployment. In the 20th century, Karl Marx, who introduced the surplus theory in his book "Das Capta", and Mao Zedung, and other socialist scholars and economists had also dissented with interest termed as "Organ of fiscal exploitation".

CHAPTER 2

ISLAMIC BANKING MOVEMENT IN THE WORLD:

Islamic Banking, based on the Islamic economic system, is not restricted to Muslims only. The objective of Islam injunction is welfare of the whole humanity. Islamic Banking is no longer confined to concepts and ideas only. Until the first half of the 20th century, it was more or less an abstract concept. Islamic Banking and finance started in 1963 when Mit Ghambr Savings Bank began offering interest free banking in Egypt.

Starting from 1980s various Islamic Banks and Islamic financial institutions have begun their operations in different Islamic countries. While the countries of Iran and Pakistan have implemented Islamic Banking in the whole banking sector, other countries have permitted Islamic Banking institutions operate with the other traditional banks.

Malaysia is the first country to issue bonds on Islamic basis. Malaysian government allowed conventional banks to offer Islamic instruments as well if they want. Examination of the progress of these institutions in Iran and Pakistan reveals that in Pakistan this process is a gradual one. On the other hand in Iran the process of conversion of traditional banks and financial institutions into Islamic ones was very rapid.

The government of Iran has nationalized all the banks during the period of 1979-1982 after the Islamic revolution. In August 1983, the Iranian government had passed the law for riba free banking and asked all banks to convert their deposits and finish Islamisation of all their operations within three years. After this period government has started to exert control on the banks so that the banks provide interest free loans to public for housing and for small-scale projects. The banks have also provided funds for government projects. The six commercial banks and three specialized banks are mainly engaged in short term projects and

profit sharing agreements are only small percentage of their activities. Since then Islamic Banks have steadily been growing.

There are thirty-one Islamic Financial Institutions and "interest-free mode of financing" which are practical and more than 48 countries as well as more than 300 Islamic Banks are working on these non-interest modes and interest-free methods all over the globe. The international Islamic Financial Institutions are providing a wide range of services in accordance with the basic principles of Shari'ah. The products are Mudaraba, Murabaha, Musharaka, Ijarah, Istisna and Salam.

Conventional banks operate under the concept of lender-borrower relationship where interest is considered as the rental income on capital. The depositors are assumed to be capital providers. Profits of the banks are distributed at the discretion of the bank managements.

But the Islamic Banks follow the concept of Mudaraba (profit sharing) based on investor entrepreneur relationship. Here Islamic Banks consider depositors as entrepreneurs. The profits generated through this relationship are divided between the two parties as per agreed ratio.

Further, researchers divide Islamic Bank customers into three broader categories (a) religiously motivated customers (b) high profit motivated customers (c) customers who are religiously motivated but also expect returns at least similar to conventional banks. Customers of second and third categories generally dominate in terms of numbers in any Islamic bank. They expect returns on deposits similar to conventional banks.

In the money market, the main objective is to meet short-term liquidity requirements. The market facilitates banks with deficit in cash to borrow from the banks having surplus money. Islamic money market conducts a similar function of meeting the

short-term liquidity needs. Instead of interest, it allows Islamic Banks to share surplus capital on profit-sharing basis.

Islamic and conventional money markets can be assumed to offer similar returns on investments. Low returns in Islamic money markets may badly affect the overall profitability of Islamic Banks in the initial stages of their development. Even if, Islamic money market offers returns higher than conventional market, the Islamic Banks may still not enjoy an advantageous position.

According to the Institute of Islamic Banking and Insurance, there are more than 300 Islamic Financial Institutions in the world. These institutions are working in the following countries: Albania, Algeria, Australia, Bahamas, Bahrain, Bangladesh, and British Virgin Islands, Brunei, Canada, Cayman Islands, Cyprus, Djibouti, Egypt, France, Gambia, Germany, Guinea, India, Indonesia, Iran, Iraq, Italy, Ivory Coast, Jordan, Kazakhstan, Kuwait, Lebanon, Luxembourg, Malaysia, Mauritania, Morocco, The Netherlands, Niger, Nigeria , Oman, Pakistan, Palestine, Philippines, Qatar, Russia, Saudi Arabia, Senegal, South Africa, Sri Lanka, Sudan, Switzerland, Tunisia, Turkey, Trinidad and Tobago, United Arab Emirates, United Kingdom, United States, Yemen.

CHAPTER 3

Principle of SHARIA"H Investment

The term ‘Islamic Investment’ is a joint pool wherein the investors contribute their surplus money for the purpose of its investment to earn halal profits in strict conformity with the precepts of Islamic Shari’ah. The subscribers of the Fund may receive a document certifying their subscription and entitling them to the pro-rata profits actually accrued to the Fund. These documents may be called ‘certificates’ ‘units’ ‘shares’ or may be given any other name, but their validity in terms of Shari’ah, will always be subject to two basic conditions:

Firstly, instead of a fixed return tied up with their face value, they must carry a pro-rata profit actually earned by the Fund. Therefore, neither the principal nor a rate of profit (tied up with the principal) can be guaranteed. The subscribers must enter into the fund with a clear understanding that the return on their subscription is tied up with the actual profit earned or loss suffered by the Fund. If the Fund earns huge profits, the return on their subscription will increase to that proportion; however, in the case the Fund suffers loss, they will have to share it also, unless the loss is caused by the negligence or mis-management, in which case the management, and not the Fund, will be liable to compensate it.

Secondly, the amounts so pooled together must be invested in a business acceptable to Shari’ah. It means that not only the channels of investment, but also the terms agreed with them must conform to the Islamic principles.

Keeping these basic requisites in view, the Islamic Investment Funds may accommodate a variety of modes of investment, which are discussed briefly in the following paragraphs.

3.1 Equity Fund

In an equity fund the amounts are invested in the shares of joint stock companies. The profits are mainly achieved through the capital gains by purchasing the shares and selling them when their prices are increased. Profits are also achieved by the dividends distributed by relevant companies.

It is obvious that if the main business of a company is not lawful in terms of Shari'ah, it is not allowed for an Islamic Fund to purchase, hold or sell its shares, because it will entail the direct involvement of the share holder in that prohibited business.

Similarly the contemporary Shari'ah experts are almost unanimous on the point that if all the transactions of a company are in full conformity with Shari'ah, which includes that the company neither borrows money on interest nor keeps its surplus in an interest bearing account, its shares can be purchased, held and sold without any hindrance from the Shari'ah side. But evidently, such companies are very rare in the contemporary stock markets. Almost all the companies quoted in the present stock market are in some way involved in an activity, which violates the injunctions of Shari'ah. Even if the main business of a company is halal, its borrowings are based on interest. On the other hand, they keep their surplus money in an interest bearing account or purchase interest-bearing bonds or securities.

The case of such companies has been a matter of debate between the Shari'ah experts in the present century. A group of the Shari'ah experts is of the view that it is not allowed for a Muslim to deal in the shares of such a company, even if its main business is halal. Their basic argument is that every share-holder of a company is a sharik (partner) of the company, and every sharik, according to the Islamic jurisprudence, is an agent for the other partners in the matters of the joint business. Therefore, the mere purchase of a share of a company embodies an authorization from the shareholder to the company to carry on its business in whatever manner the management deems fit. If it is known to the share-holder that the company is

involved in an un-Islamic transaction, still, he holds the shares of that company, it means that he has authorized the management to proceed with that un-Islamic transaction, In this case, he will not only be responsible for giving his consent to an un-Islamic transaction, but that transaction will also be rightfully attributed to himself, because the management of the company is working under his tacit authorization.

Moreover, when a company is financed on the basis of interest, its funds employed in the business are impure. Similarly, when the company receives interest on its deposits an impure element is necessarily included in its income which will be distributed to the shareholders through dividends.

However, a large number of the present day scholars do not endorse this view. They argue that a joint stock company is basically different from a simple partnership. In partnership, all policy decisions are taken by the consensus of all the partners, and each one of them has a veto power with regard to the policy of the business. Therefore, all the actions of a partnership are rightfully attributed to each partner. Conversely, the policy decisions in a joint stock company are taken by the majority. Being composed of a large number of share-holders, a company cannot give a veto power to each shareholder. The opinions of individual shareholders can be overruled by a majority decision. Therefore, each and every action taken by the company cannot be attributed to every share-holder in his individual capacity. If a shareholder raises an objection against a particular transaction in an Annual General Meeting, but his objection is overruled by the majority, it will not be fair to conclude that he has given his consent to that transaction in his individual capacity, especially when he intends to withdraw from the income relatable to that transaction.

Therefore, if a company is engaged in a halal business, however, it keeps its surplus money in an interest-bearing account, where from a small incidental income of interest is

received; it does not render all the business of the company unlawful. Now, if a person acquires the shares of such a company with clear intention that he will oppose this incidental transaction also, and will not use that proportion of the dividend for his own benefit, how can it be said that he has approved the transaction of interest and how can that transaction be attributed to him?

The other aspect of the dealings of such a company is that it sometimes borrows money from financial institutions. These borrowings are mostly based on interest. Here again the same principle is relevant. If a shareholder is not personally agreeable to such borrowings, but has been overruled by the majority, these borrowing transactions cannot be attributed to him.

Moreover, according to the principles of Islamic jurisprudence, borrowing on interest is a grave sinful act for which the borrower is responsible in the Hereafter; however, this sinful act does not render the whole business of the borrower as haram or impermissible. The borrowed amount being recognized as owned by the borrower, anything purchased in exchange of that money is not unlawful. Therefore, the responsibility of committing a sinful act of borrowing on interest rests with the person who willfully indulged in a transaction of interest, but this fact does not render the whole business of a company as unlawful.

3.1.1 Conditions for investment in Shares

In the light of the foregoing discussion, dealing in equity shares can be acceptable in Shari'ah subject to the following conditions:

1. the main business of the company is not violative of Shari'ah. Therefore, it is not permissible to acquire the shares of the companies providing financial services on interest, like conventional banks, insurance companies, or the Companies involved in some other

business not approved by the Shari'ah, such as the companies manufacturing, selling or offering liquors, pork haram meat, or involved in gambling, night club activities, pornography

2. If the main business of the companies is halal, like automobiles, textiles etc, but they deposit their surplus amounts in an interest-bearing account or borrow money on interest, the share-holder must express his disapproval against such dealings, preferably by raising his voice against such activities in the annual general meeting of the company.

3. If some income from interest-bearing accounts is included in the income of the company, the proportion of such income in the dividend paid to the shareholder must be given to charity, and must not be retained by him. For example, if 5% of the whole income of a company has come out of interest-bearing deposits, 5% of the dividend must be given to charity.

4. The shares of a company are negotiable only if the company owns some illiquid assets. If all the assets of a company are in liquid form, i.e. in the form of money, they cannot be purchased or sold except on par value, because in this case the share represents money only and the money cannot be traded in except at par.

What should be the exact proportion of illiquid assets of a company for the negotiability of its shares? The contemporary scholars have different views about this question. Some scholars are of the view that the ratio of illiquid assets must be 51% at the least. They argue that if such assets are less than 50%, the most of the assets are in liquid form, therefore, all its assets should be treated as liquid on the basis of the juristic principle:

‘The majority deserves to be treated as the whole of a thing’

some other scholars have opined that even if the illiquid asset of a company is 33%, its shares can be treated as negotiable.

The third view is based on the Hanafia jurisprudence. The principle of the hanafia school is that whenever an asset is a mixture of liquid and illiquid assets, it can be negotiable irrespective of the

Proportion of its liquid part. However, this principle is subject to two conditions: **Firstly,** the illiquid part of the mixture must not be in ignorable quantity. It means that it should be in a considerable proportion.

Secondly, the price of the mixture should be more than the price of the liquid amount contained therein. For example, if a share of 100 dollars represents 75 dollars, plus some fixed assets the price of the share must be more than 75 dollars. In this case, if the price of the share is fixed as 105, it will mean that 75 dollars are in exchange of 75 dollars owned by the share and the rest of the 30 dollars are in exchange of the fixed assets. Conversely, if the price of that share is fixed as 70 dollars, it will not be allowed, because the 75 dollars owned by the share are in this case against an amount which is less than 75. This kind of exchange falls within the definition of ‘riba’ and is not allowed. Similarly, if the price of the share, in the above example, is fixed as 75 dollars, it will not be permissible, because if we presume that 75 dollars owned by that share, no part of the price can be attributed to the fixed assets of the share. In this case, the remaining amount will not be adequate for being the price of 75

dollars. For this reason the transaction will not be valid. However, in practical terms, this is merely a theoretical possibility, because it is difficult to imagine a situation where the price of a share goes lower than its liquid assets.

Subject to these conditions, the purchase and sale of shares is permissible in Shari'ah. An Islamic Equity Fund can be established on this basis. The subscribers to the Fund will be treated in Shari'ah as partners 'inter se'. All the subscription amounts will form a joint pool and will be invested in purchasing the shares of different companies. The profits can accrue either through dividends distributed by the relevant companies or through the appreciation in the prices of the shares. In the first case i.e. where the profits earned through dividends, a certain proportion of the dividend, which corresponds to the proportion of interest earned by the company, must be given in charity. The contemporary Islamic Funds have termed this process as 'purification'.

The Shari'ah scholars have different views about whether the 'purification' is necessary where the profits are made through capital gains (i.e. by purchasing the shares at a lower price and selling them at a higher price). Some scholars are of the view that even in the case of capital gains the process of 'purification' is necessary, because the market price of the share may reflect an element of interest included in the assets of the company. The other view is that no purification is required if the share is sold, even if its results in a capital gain. The reason is that no specific amount of the price can be allocated for the

Interest received by the company. It is obvious that if all the above requirements of the 'halal' shares are observed, the most of the assets of the company are 'halal', and a very small proportion of its assets may have been created by the income of interest. This small proportion is not only unknown, but also ignorable as compared to the bulk of the assets of the company. Therefore, the price of the share, in fact, is against the bulk of the assets, and

not against such a small proportion. The whole price of the share therefore, may be taken as the price of the 'halal' assets only.

Although this second view is not without force, yet the first view is more precautious and far from doubts. Particularly, it is more equitable in an open-ended equity fund because if the purification is not carried out on the appreciation and a person redeems his unit of the Fund at a time when no dividend is received by it, no amount of purification will be deducted from its price, even though the price of the unit may have increased due to the appreciation in the process of the shares held by the fund. Conversely, when a person redeems his unit after some dividends have been received in the fund and the amount of purification has been deducted there-from, reducing the net asset value per unit, he will get a lesser price as compared to the first person.

On the contrary, if purification is carried out both on dividends and on capital gains, all the unit-holders will be treated at par with regard to the deduction of the amounts of purification. Therefore, it is not only free from doubts but also more equitable for all the unit-holders to carry out purification in the capital gains also. This purification may be carried out on the basis of an average percentage of the interest earned by the companies included in the portfolio.

The management of the fund may be carried out in two alternative ways. The managers of the Fund may act as 'mudaribs' for the subscribers. In this case a certain percentage of the annual profit accrued to the Fund may be determined as the reward of the management, meaning thereby that the management will get its share only if the fund has earned some profit. If there is no profit in the fund, the management will deserve nothing, but the share of the management will increase with the increase of profits.

The second option for the management is to act as an agent for the subscribers. In this case, the management may be given a pre-agreed fee for its services. This fee may be fixed in lump sum or as a monthly or annual remuneration. According to the contemporary Shari'ah scholars, the fee can also be based on a percentage of the net asset value of the fund. For example, it may be agreed that the management will get 2% or 3% of the net value of the fund (1) at the end of every financial year.

However, it is necessary in Shari'ah to determine any one of the aforesaid methods before the launch of the fund. The practical way for this would be to disclose in the prospectus of the fund on what basis the fees of the management will be paid. It is generally presumed that whoever subscribes to the fund agrees with the terms mentioned in the prospectus. Therefore, the manner of paying the management will be taken as agreed upon by all the subscribers. To make people aware about the Shari'ah complaint companies the Parsoli have made enough efforts to bring an Islamic index known as PIE index to let people know about the companies who actually do their business according to the Shari'ah rules.

3.2 Mutual Funds

Another opportunity is mutual funds (Equity) which are based on 100% equity. These funds are invested in different sectors like IT, automobile telecommunication, cement and a few present in interest based financial institutes, almost 10 to 15 %. So investor has to purify that amount from the profits. And also there are many sartorial funds which invests only in a particular sector like automobile, Oil & Gas, etc

Here are some of the most common types of the Shari'ah compliant funds and their basic investment profile, which an investor must know before leaving his/her hard-earned money at their disposal:

Equity Funds: As the name suggests, equity funds invest the money pooled in from the investors into stocks. Equity MFs are further classified into sub-categories depending upon the asset classes such as large-cap, mid-cap and small-cap, sectors or themes. Equity funds carry a bigger risk profile than the bond funds.

Sector Funds: Sector funds invest in the stocks of one particular sector and these funds are generally conceptualized after some sector catches fancy of the market or when there is any significant buzz for some major growth in a particular sector. For example, the infrastructure sector is the current favourite in the MF circle, while a few other sectors with exposure to the country's infrastructure growth are also finding favour.

Index Funds: The index funds primarily invest in the constituent stocks of a particular market index, such as Sensex and Nifty, and most often track the movements of those indices. While during a bull run, index funds can give impressive returns, the losses are also sharp during the bearish phases of the market. However, the index funds are known to given good returns in the long term, as their portfolio generally consist of stocks with proven track record.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 Research Design

A research design provides the framework to be used as a guide in collecting and analysing data. But it is not necessary that a particular research design is always the best.

Experience with different research design will generally provide the researcher with the capability to match a research problem with an appropriate design.

Research methodology depends, to a large extent on the target population and how easy or difficult to access it. The second factor which influences research methodology is of course the importance of decisions which will be taken based on the research.

Broadly speaking we can classify research designs into the following three categories:

- Exploratory research
- Descriptive research
- Casual research.

4.2 Research objective

The research study is having one main objective:

- To study investment avenues for Muslim according to Shari'ah principles.

Sub objectives

- Whether Muslims invest in financial Products or not
- The reasons for not investing
- Products in which they invest
- Frequency of investment
  - Average tenure of investment
  - Expected rate of return

Nature of Study

The nature of this study is exploratory one. This is generally used to clarify thoughts and opinions about the research problem or the respondent population or to provide insights on how to do more conclusive (casual) research.

One major application of such research therefore is to generate hypothesis for further studies. The methods used in exploratory studies can range from the usual surveys to focus groups, to consultations with experts in the field to analysis of selected cases.

4.2.1 Sources of Data

The obtained for the study is primary in nature as the data is collected from primary sources of data collection like questionnaire and observations.

The data was obtained from the businessmen, professionals investors of Jammu and Kashmir.

Population, investors and professionals.

Elements (Sample): Sample for the study is random.

4.2.2 Sample size

Convenience sampling; no sampling technique was used to arrive a sample rather it convenient suiting the use. The sample size for the study is 200 respondents.

4.3 Limitations

- ❖ This being a convenience sample, the analysis may not be a true picture of the target population.
- ❖ Lack of human power needed for collecting information from respondents.

- Biasness or prejudice of some of the respondents regarding any sort of the information which is required for such study.
- Not much of importance was attached to this task by some of the respondents. We were greeted with either reluctance or nonchalance.
- Medium sample size of the respondents.

4.4 Analysis of the plan

Analysis is based on the answers given to questions. It is important to have an analysis plan in mind even before going to the field with a questionnaire. Regrettably, this is not always given the attention it deserves by the researcher. It is sometimes assumed that it can be done later or that all possible analysis can be done anyway, so why bother to plan the analysis in advance. But for many reasons it is vital to do so.

4.5ANALYSIS OF QUESTIONNAIRE

a) **Age wise distribution of investors**

Table 4.1: Age wise distribution of investors

The purpose of the question is to check out the age distribution of the investors as well as non-investors and the results which we got that the tendency of investing is 72.92%, 66.67%, 62.50% & 51.25% in the age group of 50-above, 30-40, 40-50 & 20-30 respectively.

Age	**Frequency**	**Investing**	**Percentage**	**Not Investing**	**Percentage**
20 – 30	80	41	51.25	39	48.75
30 – 40	48	32	66.67	16	33.33
40 – 50	24	15	62.50	9	37.50
50 & Above	48	35	72.92	13	27.08

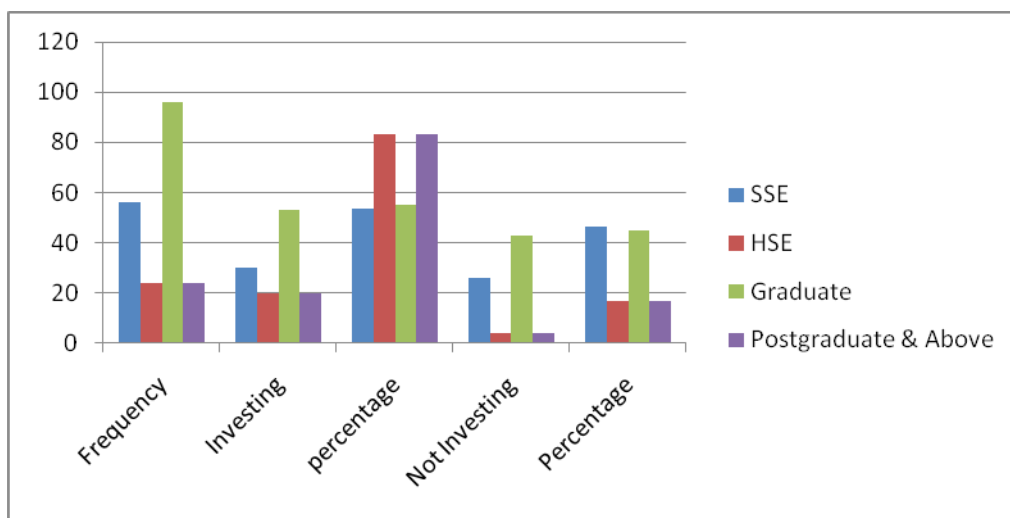
Thus we conclude that age group of 50-above are highly investing while as other age groups are moderately investing. While as in non-investing group mostly age group of 20-30 is not investing their savings.

b) Education qualification of investors.

Table 4.2 : Education qualification of investors.

Educational Qualification	**Frequency**	**Investing**	**Percentage**	**Not Investing**	**Percentage**
SSE	56	30	53.57	26	46.43

HSE	24	20	83.33	4	16.67
Graduate	96	53	55.21	43	44.79
Postgraduate & Above	24	20	83.33	4	16.67

Graph 2 of investors & education Qualification.

The purpose of the question is to check the Educational qualification of the investors and non-investors and the result shows that almost 83.33% is either having educational qualification of HSE or PG & above.

c) Occupation of investors

Table 4.3: Occupation of investors

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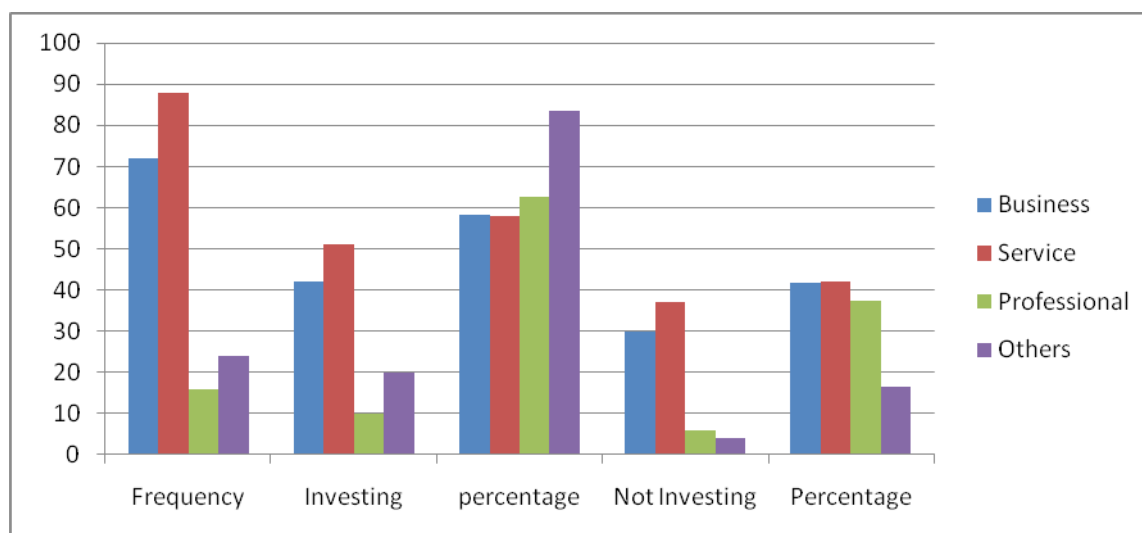
Occupations	Frequency	Investing	percentage	Not Investing	Percentage
Business	72	42	58.33	30	41.67
Service	88	51	57.95	37	42.05
Professional	16	10	62.50	6	37.50
Others	24	20	83.33	4	16.67

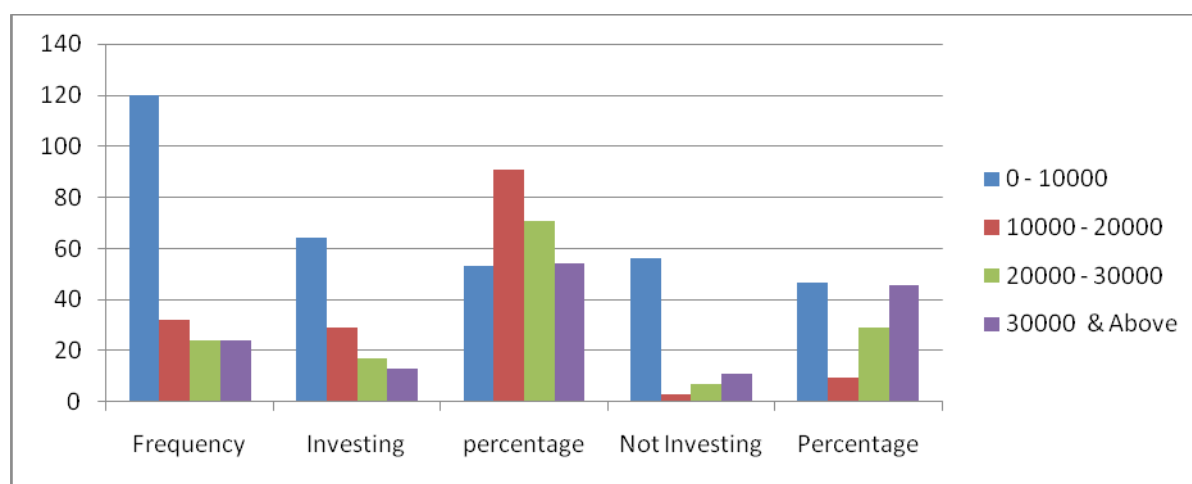
Graph 3 of occupation of investors.

The response of this question shows that business is the main source of income for the investors and the people in service and others are not fully.

d) <u>Monthly income of investors</u>

<u>Table 4.4:</u> Monthly income of investors

Monthly Income	Frequency	Investing	percentage	Not Investing	Percentage
0 – 10000	120	64	53.33	56	46.67

10000 – 20000	32	29	90.63	3	9.38
20000 – 30000	24	17	70.83	7	29.17
30000 & Above	24	13	54.17	11	45.83

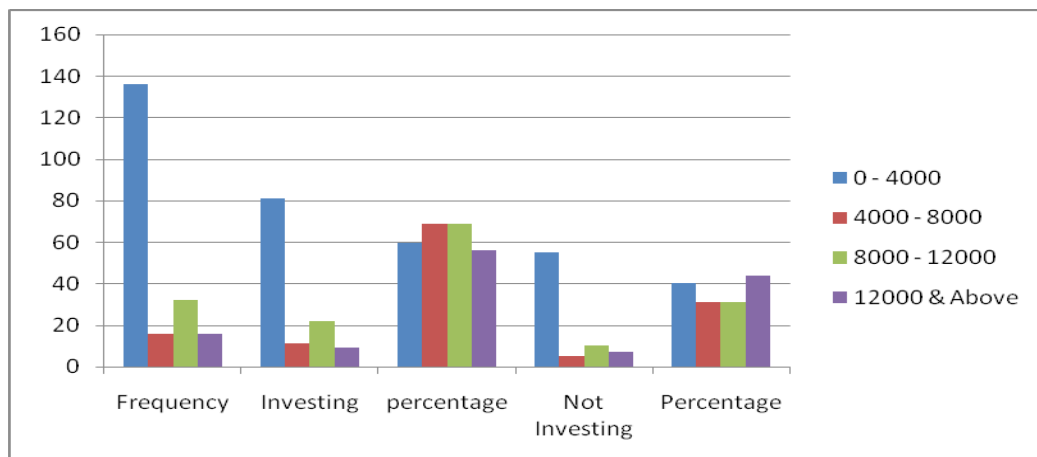
Graph 4 showing income of investors.

This graph shows that people having income of 4000-10000 are the major investors' i.e. most of the people who invest are in this income group although people having in between of 10000-20000 are having greater participation i.e. among 32 people in this income range 29 were investing while in case of 4000-10000 range among 120 people only 64 were investing and rest not investing.

e) **Monthly savings of investors.**

Table 4.5: Monthly savings of investors

Monthly Savings	Frequency	Investing	percentage	Not Investing	Percentage
0 – 4000	136	81	59.56	55	40.44

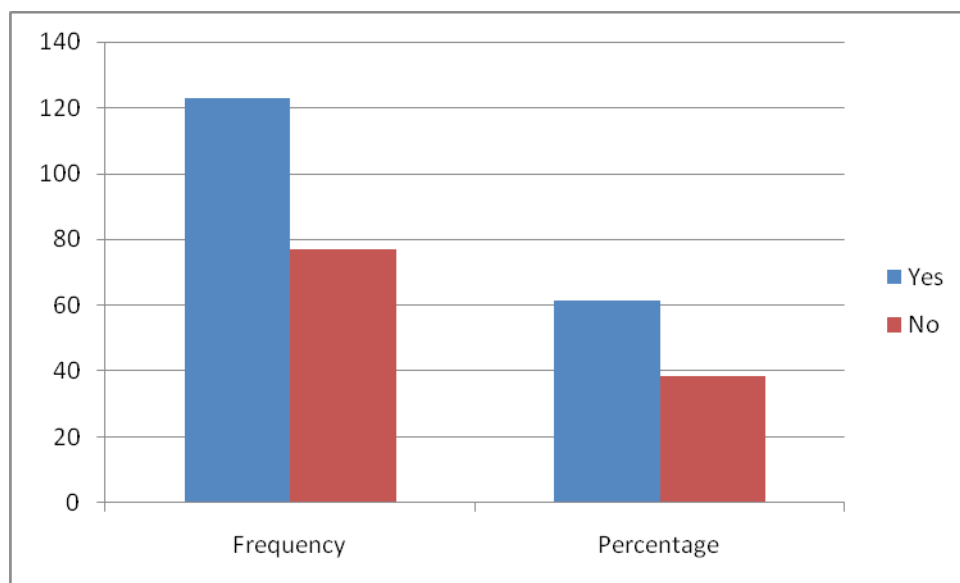
4000 – 8000	16	11	68.75	5	31.25
8000 – 12000	32	22	68.75	10	31.25
12000 & Above	16	9	56.25	7	43.75

Graph 5 showing monthly savings of investors.

By analysing this question, the persons having savings of about 4000 – 8000 & 8000 – 12000 monthly invest their saving followed by 12000 & Above in order to appreciate their capital by yeilds and capital appreciation.

f) <u>Do you invest your savings?</u>

Table 4.6: Do you invest your savings?

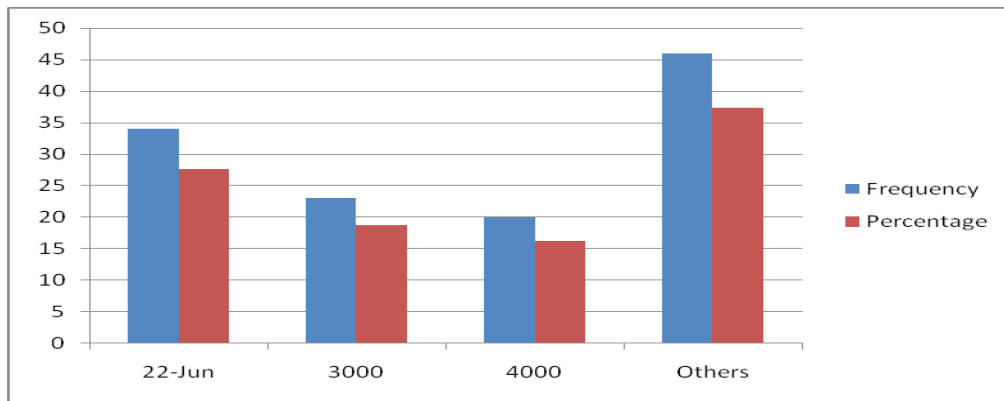
Invest	Frequency	Percentage
Yes	123	61.5
No	77	38.5
Total	**200**	

Graph 6 of investors.

As our survey was in Kashmir and releated areas the %age of investors were more than non investors but it may not be true for other areas and our survey was mainly near brokerage houses so this was also one main reason for such a result.

g) **Amount invested from saved amount of 10000.**

Table 4.7 : Amount invested from saved amount of 10000.

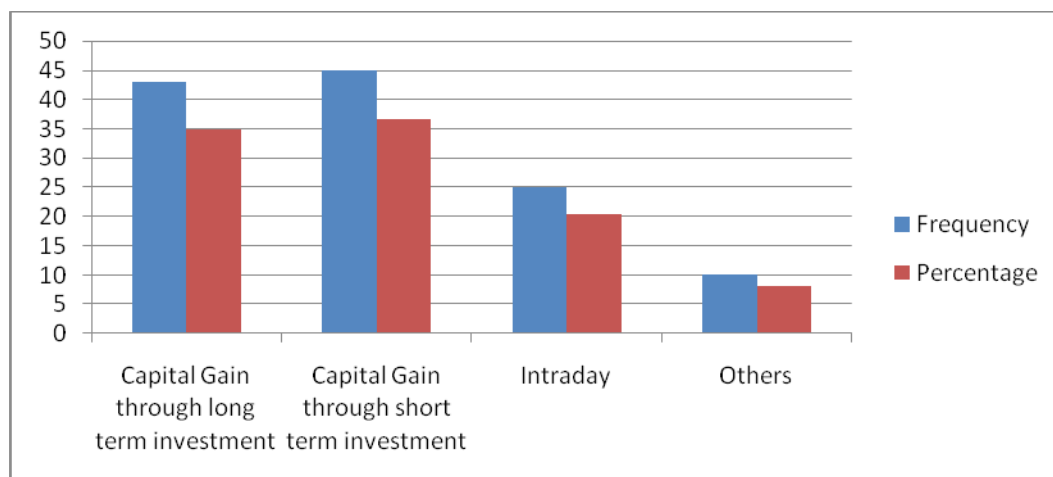
Amount invested from 10000 saving	Frequency	Percentage
2000	34	27.64
3000	23	18.7
4000	20	16.26
Others	46	37.39
Total	**123**	

Graph 7 of an amount invested in an amount of 10000.

Here the result shows that 27% invest 2000-4000 from savings into stock market while as 37% were unaware about their investment some people were so risky that their reply was that invest almost 100% of their savings into equity market.

h) Investment objective of investors.

Table 4.8: Investment objective of investors.

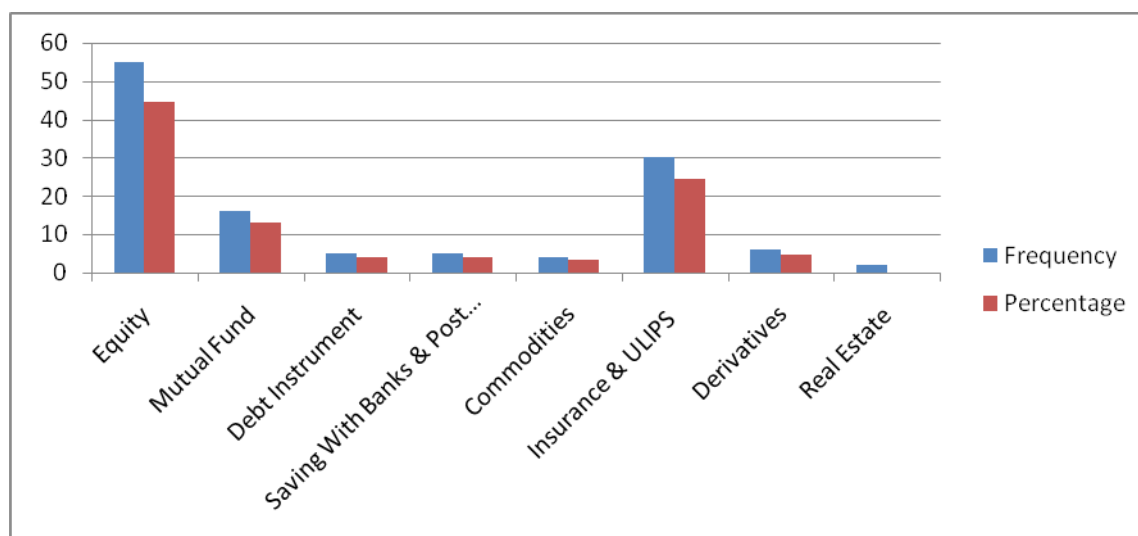
Investment Objective	Frequency	Percentage
Capital Gain through long term investment	43	34.95
Capital Gain through short term investment	45	36.6
Trading during a day(Intraday)	25	20.32
Others	10	8.13
Total	**123**	

Graph 8 of investment objective of investors.

We found that most people in J&K to whom we met were short-term as well as intraday traders as the response of some people was that they wholly depend on this income which they obtain from intraday trading

i) Investment alternatives for investors.

Table 4.9: Investment alternatives for investors.

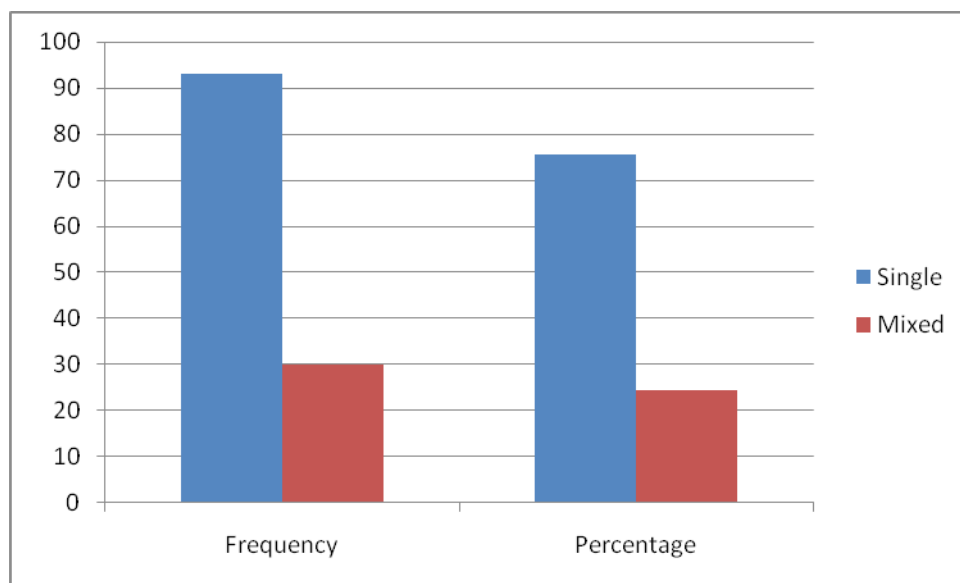
Investment Alternatives	Frequency	Percentage
Equity	55	44.71
Mutual Fund	16	13.0
Debt Instrument	5	4.065
Saving With Banks & Post Office	5	4.065
Commodities	4	3.25
Insurance & ULIPS	30	24.39
Derivatives	6	4.87
Real Estate	2	0.016
Total	**123**	

Graph 9 of Investment alternatives for investors.

Here we found that 44.71% Muslims invest in equity shares and 24% invest in products like ULIPS which in one way or other related with equity.thus we can interpret from the results that muslim investors are risk takers.

j) <u>Do you invest in single or mixed alternatives?</u>

<u>Table4.10 :</u> Investing in single or mixed alternatives

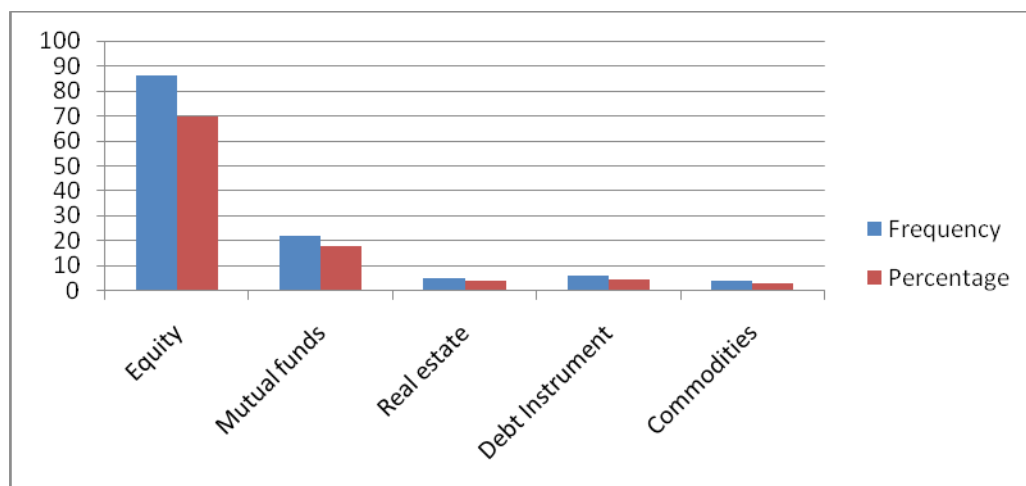
Investment Alternatives	Frequency	Percentage
Single	93	75.6
Mixed	30	24.4
Total	**123**	

Graph 10 of single or mixed alternatives.

As described in the previous question it was found that most people invest in asingle product i,e equity shares while as small %age of respondents were having multiple alternatives.

k) Maximum portion of saving of investors goes to.

Table 4.11: Maximum portion of saving of investors goes to

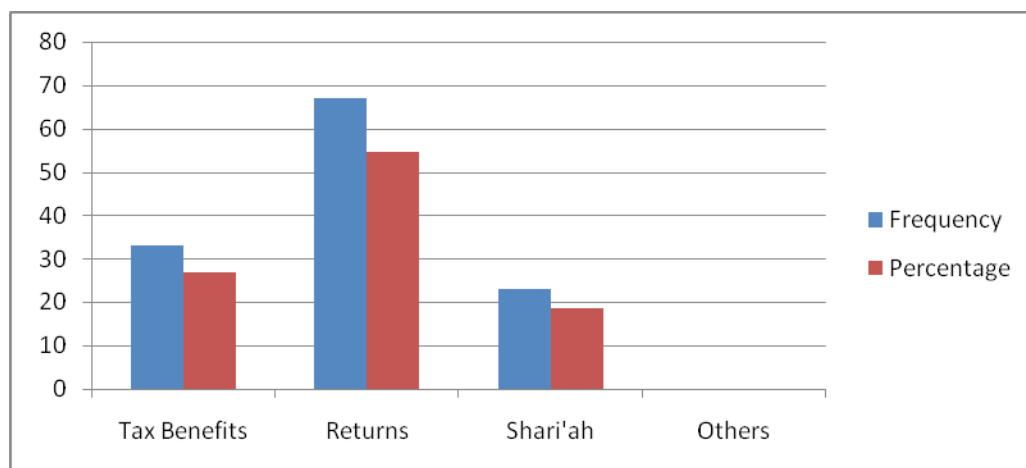
Max Portion of saving goes to	Frequency	Percentage
Equity	86	69.91
Mutual funds	22	17.9
Real estate	5	4.06
Debt Instrument	6	4.87
Commodities	4	3.25
Total	**123**	

Graph 11 of distribution of investor's saving.

By analysing this question that the maximum portion of the investors saving goes to equity or Capital Market and to some extent in Mutual Funds, as both these alternatives have higher returns than other investment alternatives.

l) <u>Which criteria do you consider while taking investment decisions?</u>

<u>Table 4.12</u>: Which criteria do you consider while taking investment decisions

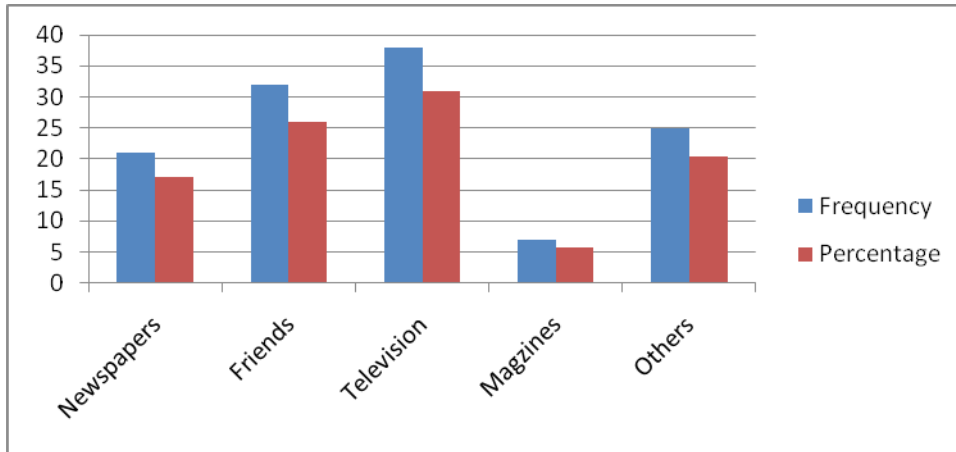
Investment Criteria Factors	Frequency	Percentage
Tax Benefits	33	26.82
Returns	67	54.5
Shari'ah	23	18.69
Others	0	0
Total	**123**	

Graph 12 of criteria for investment decision.

Return was the main criteria of the investment. In the survey we found that 54.3% were investing because of this reason while as 18.6 people take Shari'ah into consideration before investing their saving 26% for tax benefits.

m) **Which external factors influence your investment decision?**

Table 4.13: **Which external factors influence your investment decision?**

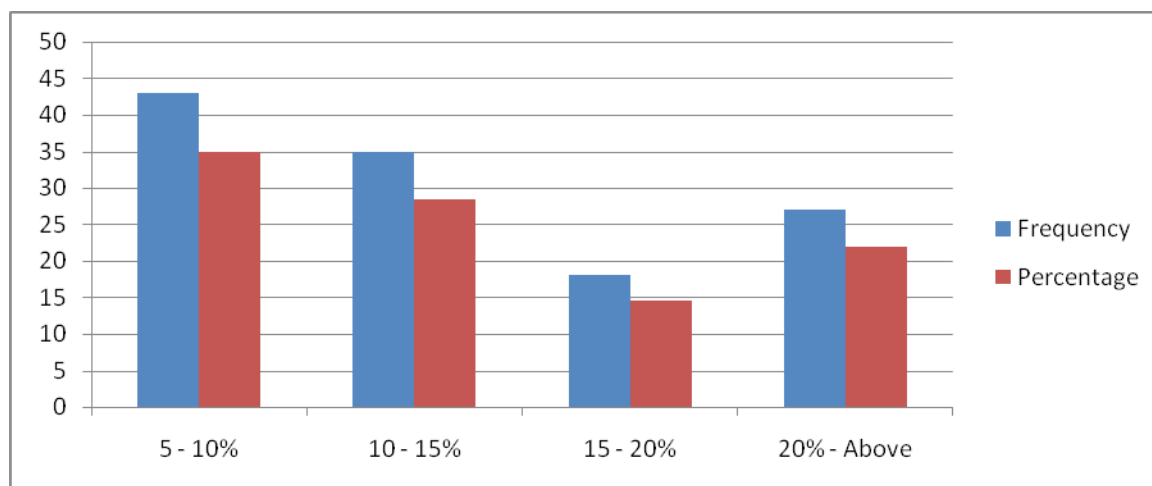
External Influencing Factors	Frequency	Percentage
Newspapers	21	17.07
Friends	32	26.0
Television	38	30.89
Magazines	7	5.69
Others	25	20.32
Total	**123**	

Graph 13 of external factors influencing investment decision.

During the survey we found that television was the main influencing factor 30.89% respondents were influenced by CNBC-TV among others freinds were the second response.

n) **What is the expected rate of return on your investment?**

Table 4.14: Which external factors influence your investment decision

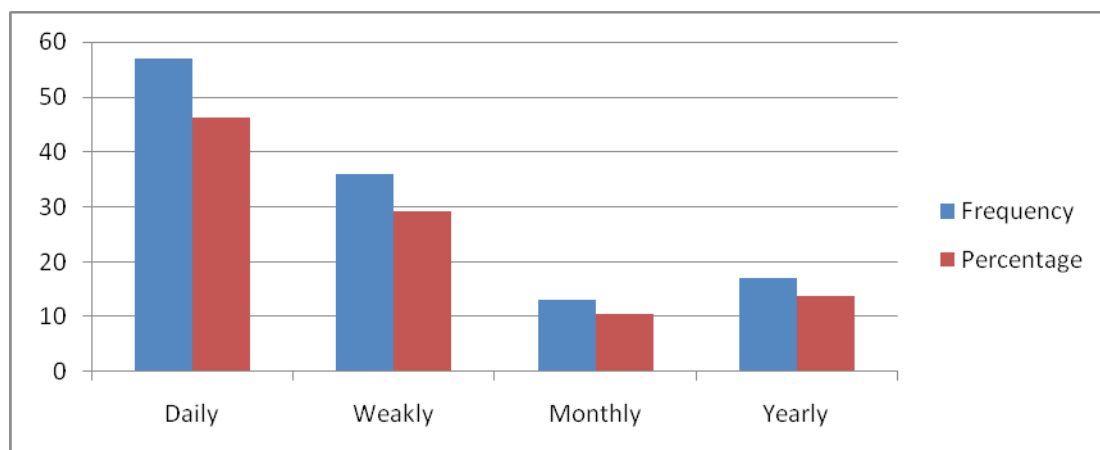
Expected Rate Of Return	**Frequency**	**Percentage**
5 - 10%	43	34.95
10 - 15%	35	28.5
15 - 20%	18	14.63
20% - Above	27	21.95
Total	**123**	

o) Graph 14 of return on investment.

During our survey we found that 34% muslims investors expect to get 5-10% return on their investment while as 21% people expect above 20% because of high inflation and other attractive avenues and 14% expect 15-20% return.

p) What is the frequency of your investment?

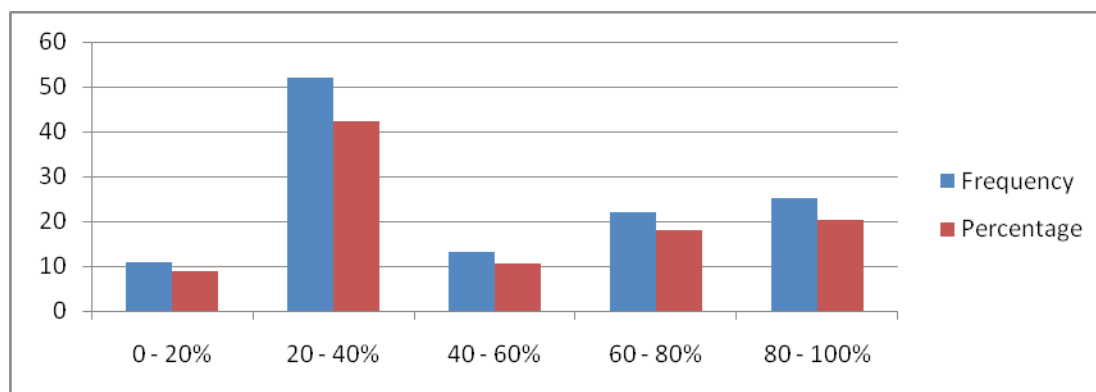
Table 4.15: What is the frequency of your investment?

Frequency of investment	Frequency	Percentage
Daily	57	46.34
Weekly	36	29.3
Monthly	13	10.56
Yearly	17	13.82
Total	**123**	

Graph 15 of frequency of investment

We found that intraday trading was the main option of the investors so 46% were daily investors and the weekly monthly and yearly %age was 29%,10.56% and 13% respectivelly.

q) <u>How much percent do you invest in equity market?</u>

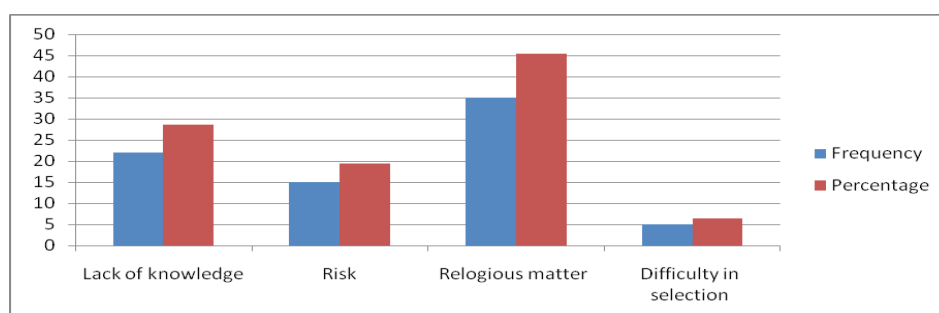
% of investment in equity market	Frequency	Percentage
0 - 20%	11	8.94
20 - 40%	52	42.3
40 - 60%	13	10.56
60 - 80%	22	17.88
80 - 100%	25	20.32
Total	**123**	

Graph 16 of percentage of investment in equity market

42% people invest their savings into equity market as they are risk aware while as 20% invest their 80% into equity market.

r) Why don't you invest your savings to get some returns?

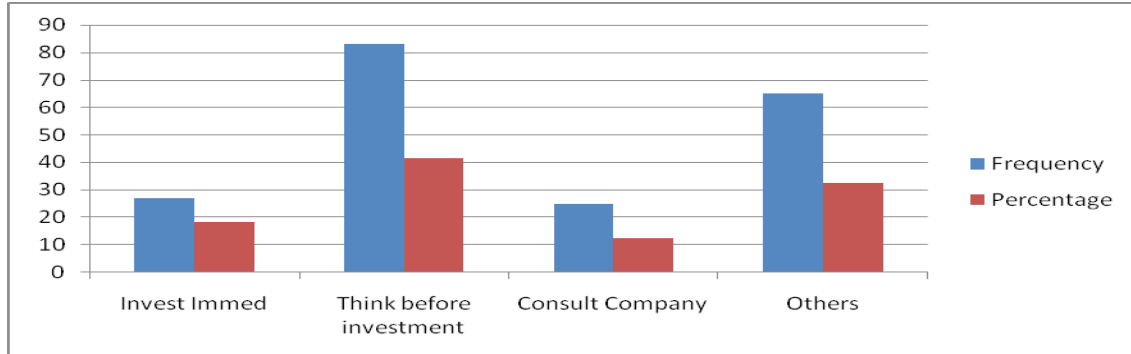
Table 4.16 : Why don't you invest your savings to get some returns

Why people don't invest	Frequency	Percentage
Lack of knowledge	22	28.57
Risk	15	19.48
Religious matter	35	45.45
Difficulty in selection	5	6.49
Total	**77**	

Graph 20 of why people don't invest their savings.

When asked why they don't invest most of the respondant reply was that are not having so much income and knowledge about the products and because of religion as islam prohibited interest but when they were asked that parsoli is providing the avenues according to shariah they replied they are unaware about this.

s) **<u>If a company which will be providing avenues according to Shari'ah Principles. What would be your response?</u>**

Launch Of New Shari'ah Company	**Frequency**	**Percentage**
Invest Immediately	27	**18.5**
Think before investment	83	**41.5**
Consult Company	25	**12.5**
Others	65	**32.5**
Total	**200**	

Graph 21 of a company which will be providing avenues according to Shari'ah Principles.

In the survey we found that majority of investor response was that they will invest after investigation about the product and the company while as18%believe that they would invest immediately after the launch of the Shari'ah based product.

Suppose a new opportunity like Islamic Banking or Hajj Fund is available in market, what parameters you would like to evaluate the opportunity?

The purpose of this question was to check out the responses of the respondents about the new investment opportunities which are likely to be offered in future. The responses regarding the parameters were primarily regarding to know about the product and the benefits and most of the respondents about 80% of the population were willing to invest in these products when they will be launched into the market

Do you have knowledge about companies providing products according to Shari'ah principles?

100% of the population till now responded that there is a very less no. of companies which are providing Shari'ah compliant products. Regardingly company can benefit itself by launching new products such as HUJJ Fund and Islamic Banking and they will not only benefit the company but will help the Muslim population to achieve the economic as well as religious benefits and with this the customer base of its clients will also increase.

CHAPTER 5

FINDINGS AND CONCLUSION:

FINDINGS:

- ❖ The least involvement of Muslims in stock market is either because of religious matter or because of not having surpluses.
- ❖ We found that more than half portion of Muslim does not invest in any financial product.
- ❖ Lack of knowledge regarding Islamic Investment Avenues.
- ❖ Most Muslims in spite of having knowledge regarding the Shari'ah Compliant Avenues, they prefer to invest in Non Shari'ah compliant Products.
- ❖ Main influencing factor related with investment was by friends and CNBC TV.
- ❖ People who are satisfied are highly satisfied & the people who are not satisfied are highly dissatisfied.
- ❖ Muslims can be potential for the company, if tremendous campaign appealing to invest is run among Muslims.
- ❖ Businessmen prefer reinvest in businesses rather than investing in financial products.
- ❖ Most of Muslims are aware of Shari'ah principles and try to follow those principles fully or partially. This is also one constraint for investment.

CONCLUSION

So concluding the topic by following quote:

Live on the earth as you have to spend hundreds of years here & prepare for thereafter as if you are going to die now. This shows that Muslims should invest so that they can make their both worlds good. Feeding hungry, supporting needy the virtuous deeds in Islam can only be executed only when one is having sufficient corpus & investment is one of the main gateway for assimilation of corpus. The following pares will determine the need & importance of Muslim Investment in Capital Market & Shari'ah based avenues.

Every citizen should be able to take advantage of the boom in the Equity markets of the country so that they are not left behind in the economic growth that is being witnessed throughout the country. And it is going to last for years to come. In order to remain in the main stream of the economy, Equity stock markets (The Shari'ah way) provides the most cost effective investment solution for the Muslims. Equity markets have proved that they are not only the most effective, transparent, liquid and conducive to small and big size investors as a means of investment, but history has also proved that it outperforms all other asset classes where return on investments is the parameter considered. Hence Muslims must invest in the equity market.

The following paragraphs below demonstrate the inherent advantage investments inequities have over other forms of investments.

Fixed interest based investments like the saving bank deposit, Bank FDR; Postal savings, Debentures, Bonds etc are not permitted in Islam. Hence Muslims stand to lose out and their capital gets depleted over a period of time. Therefore, stocks (The Shari'ah way) are a far better option available to the Muslims.

Investment in Real estate/ properties, though permissible in Islam, has got inherent disadvantages over equities. First, because of the unit size, it is not possible for every individual to buy property since the cost involved is huge whereas, one can invest inequity

(the Shari'ah way) for an amount as low as Rs. One thousand and there are no upper limits. Secondly, property is subject to a lot of legal paper work and one has to go through a very cumbersome procedure to acquire properties. However, it is very easy to buy and sell shares by being a member of a SEBI registered broker. So buying and selling shares is as easy as snapping your fingers. Finally, there is often a threat of encroachment of the property which involves costly litigation. Equity shares have a big advantage here since the stocks purchased get directly deposited in the investor's Demat account where it is in the safe custody of the custodian and he can sell them when ever and as much as he wants to sell.

Precious metals (gold, silver, platinum) investments are permitted in Islam. But from the point of view of economics and return on investments, these precious metals can at best beat the inflation and since they are globally traded with prices being affected by global demand and supply, the price and value does not reflect the economic growth of the nation. Hence, more often than not, it under performs the domestic economy growth. And since the Indian economy is on a long term growth path, Muslims are suggested to invest in Shari'ah compliant stocks.

A further problem with precious metal is the warehousing because if they are not safely stored, then it will always be susceptible to theft. Stocks are kept safely in the Demat account held with the custodian.

One more point that goes in the favour of equity stock markets is the Capital gains tax advantage. There is no capital gains tax for long term investors i.e. if the investment is held for more than one year. And for the short term investments of less than a year, investors have to pay only ten percent tax on its gains. Muslims must take advantage of this benefit and invest in stocks that would help them create wealth in the long term the Shari'ah way.

There is a misconception that investment in stocks is not permissible in Islam and it is often said that it is 'Haram'. Islamic scholars over a period of time have laid down certain parameters for investing like the Economic activities and financial ratios. Stocks which fulfil these parameters should be invested in by the Muslims the 'Shari'ah way'**.**

However the only disadvantage the equities have is the risk associated with them. In order to overcome this risk, one needs to take guidance from Equity Research analysts(Shari'ah compliant) who can guide and advice them on what to buy and most importantly when to buy and sell. If this part is efficiently and judiciously taken care of, then there is no better option than equities for the Muslims.

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- **www.islamicnews.com**
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ANNEXURE 1

Questionnaire:

Dear respondent

I am the student of College of Management, Shri Mata Vaishno Devi University, Katra, Jammu. As a part of our programme we have to undergo a Survey. In this regard I have been allotted a dissertation project entitled **'STUDY OF INVESTMENT AVENUES FOR MUSLIMS ACCORDING TO SHERI'AH PRINCIPLES'**. We expect your kind co-operation and need less to mention that the information provided by you is only for academic purpose and will be used for academic discussions only.

Note Q.no 1-17 are for those who invest their savings, while as Q.no 16 onwards are for those who don't invest their savings.

Demographic information:

Name: ---

Age:

a) 20-30 **b)** 30-40 c**)** 40-50 d**)** 50 and above.

Educational qualification

a) SSE **b)** HSE **c)** graduate **d)** postgraduate & above.

Occupation

a) Business **b)** service **c)** professional **d)** other-----------

Your monthly income

a) 0-10000 **b)** 10000-20000 **c)** 20000-30000 **d)** 30000-above

Your monthly savings

a) 0-4000 **b)** 4000-8000 **c)** 8000-12000 **d)** 12000-above

RELATED INFORMATION:

1) Do you invest your savings?

a) Yes **b)** no

If no then go for quest 16.

2) Suppose you are saving Rs10000/month, how much amount would you like to invest?

a) 2000 **b)** 3000 **c)** 4000 **d)** other specify----------

3) What type of investment objective do you have?

a) Capital gain through long term investment.

b) Capital gain through short term investment.

c) Intraday trading (trading in a day).

d) Others specify-------------

4) In which type of investment alternative do you invest your savings?

a) Equity **b)** mutual funds **c)** debt instrument **d)** savings with banks and P.O. **e)** commodities **f)** insurance ULIPS **g)** derivatives h) real estates.

5) Do you Invest in a single alternative or mixed specify------------

6) Maximum percentage of your savings goes to ---------------------

7) Which criteria do you take into consideration before your investment decision?

a) Tax benefits **b)** Returns **c)** Shari'ah **d)** others specify-------------

8) Which external factor influences your investment decision?

a) Newspapers **b)** friends **c)** television **d)** magazines **e)** others specify---------

9) What is the expected rate of return on your investment?

a) 5-10% **b)** 10-15% c**)** 15-20% d**)** 20%-above

10) What is the frequency of your investment?

A) Daily

b) Weakly

C) Monthly

d) Yearly

11) How much percent do you invest in equity market?

a) 0-20%

b) 20-40%

c) 40-60%

d) 60-80%

e) 80-100%

12) Suppose a new investment opportunity like Islamic banking or Huj fund is available in market, what parameters you would like to evaluate the opportunity---
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13) Why don't you invest your saving to get some returns?

a) lack of knowledge

b) Risk

c) Religious matter

d) Difficulty in selection of products.

14) If a company which will be providing avenues according to Shari'ah principles what would be your response?

a) Invest immediately

b) Think before investment

c) Will consult the company

d) Other please specify-----------------

15) Do you have knowledge about companies providing products according to Shari'ah principles

specify--

THANKS FOR YOUR CO-OPERATION